DOCUMENT RESUME

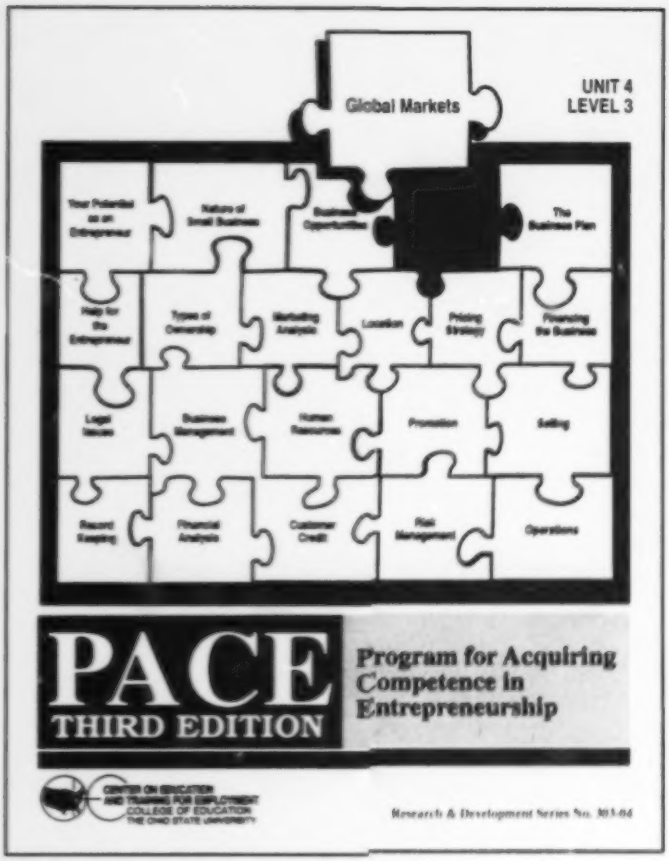
ED 373 241 CE 067 075

TITLE	Global Markets. Unit 4. Level 3. Instructor Guide. PACE: Program for Acquiring Competence in Entrepreneurship. Third Edition. Research & Development Series No. 303-04.
INSTITUTION	Ohio State Univ., Columbus. Center on Education and Training for Employment.
PUB DATE	94
NOTE	35p.; For the complete set, i.e., 21 units, each done at three levels, see CE 067 029-092. Supported by the International Consortium for Entrepreneurship Education, the Coleman Foundation, and the Center for Entrepreneurial Leadership Inc.
AVAILABLE FROM	Center on Education and Training for Employment, 1900 Kenny Road, Columbus, OH 43210-1090 (order no. RD303-04 IG, instructor guide $4.50; RD303-04 M, student module, $3; student module sets, level 1--RD301M, level 2--RD302M, level 3--RD303M, $45 each; instructor guide sets, level 1--RD301G, level 2--RD302G, level 3--RD303G, $75 each; 3 levels and resource guide, RD300G, $175).
PUB TYPE	Guides - Classroom Use - Teaching Guides (For Teacher) (052) -- Guides - Classroom Use - Instructional Materials (For Learner) (051)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Administrators; Behavioral Objectives; Business Administration; Business Education; *Competency Based Education; Cultural Differences; Decision Making; Economic Opportunities; Economics; *Entrepreneurship; *International Trade; *International Trade Vocabulary; Learning Activities; Managerial Occupations; Marketing; Politics; Postsecondary Education; Secondary Education; Self Employment; *Small Businesses; Teaching Guides
IDENTIFIERS	*Global Markets; *Program for Acquiring Competence Entrepreneurship

ABSTRACT

This instructor guide for a unit on global markets in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 3 of learning--starting and managing one's own business. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: the impact of international trade on small business; international trade options; technical assistance for international trade; methods of researching specific international markets; obstacles to international trade; and one's potential for entering international trade. (YLB)

ED 373 241



INSTRUCTOR GUIDE

Unit 4

Global Markets

Level 3

Objectives:

- Discuss the impact of international trade on small business.
- Research international trade options.
- Identify technical assistance for international trade.
- Describe methods of researching specific international markets.
- Identify obstacles to international trade.
- Evaluate your potential for entering international trade.

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

CE 067 075

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☐ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

BEST COPY AVAILABLE

Objectives	Teaching Suggestions
1. DISCUSS THE IMPACT OF INTERNATIONAL TRADE ON SMALL BUSINESS.	
Why should small business consider international trade?	Lead students in a discussion focusing on reasons that small business should consider international trade. This discussion has a twofold purpose: 1. to outline the advantages of becoming involved in international trade from an entrepreneur's perspective. 2. to discuss the trade deficit balance and to emphasize the importance of exporting in reducing the national debt. It may be useful to have students support their ideas with information gathered from periodicals and magazines.
2. RESEARCH INTERNATIONAL TRADE OPTIONS	
What are some of the options for small business?	Introduce the concepts of *exporting*, *importing*, and *global sourcing*. Explain these terms as they relate to the global economy.
What is a joint venture?	Ask students to go to the library and gather information about joint ventures between American companies and different foreign firms. Students may want to classify joint ventures by size (e.g., sales, assets) and industry (e.g., manufacturing, retailing, financial management, real estate/insurance, etc.). During class discussion, use the chalkboard or an overhead to outline advantages and disadvantages of joint ventures.
What is licensing?	Define *licensing* and clearly specify the legal requirements involved with this kind of international trade. Option: Ask students to identify potential products and industries which offer opportunities for licensing.
What is franchising?	Refer to the above suggestion.
How can direct mail be used?	Use the world map to identify major regions in the world where direct mail may be a good option. Involve students in a discussion about advantages and disadvantages of direct mail. Cost and media issues should be emphasized.

Objectives	Teaching Suggestions
How can intermediaries be used?	Use the overhead or chalkboard to identify organizations which can provide information related to international trade developed through intermediaries. Be sure to clarify the concept of intermediary by offering examples.
3. IDENTIFY TECHNICAL ASSISTANCE FOR INTERNATIONAL TRADE	
What technical assistance is available for small businesses interested in international trade?	Note that this section introduces several associations/organizations unknown to students. Indicate to students the various methods used to store this information. This will save time in the future when students need to retrieve this information (e.g., rol-a-dex, notebooks, classified files, etc.).
4. DESCRIBE METHODS OF RESEARCHING SPECIFIC INTERNATIONAL MARKETS	
How can a small business research specific international markets?	The instructor should acquaint students with the *primary* and *secondary* research methods. Due to the fact that these are rather abstract concepts, the instructor should propose a research objective (e.g., describing the demand for a certain product in a certain country, assessing competition for a line of products, etc.)
What types of data can be found for evaluating a foreign market?	Use an overhead or chalkboard to outline the five dimensions of country screening. Discuss these dimensions as they relate to other Socioeconomic factors (e.g., exchange rates, inflation, unemployment, etc.).
Where can sources of data be found?	The instructor should help students understand that memorizing names of organizations and associations is not the point here. Rather, having a general idea about what kind of data is available and how data can be retrieved and shared are the critical factors.
What general methods could be used?	Present to students the situation of an entrepreneur who considers getting involved in trade with a foreign country. Ask students to identify potential aspects to assess trade opportunities as they relate to particular features of the foreign country (e.g., an entrepreneur is considering opening a frozen yogurt company in Hungary, etc.). This section can be designed as a clear outline of the first steps entrepreneurs should take when considering international trade. The instructor may want to show an overhead with the information provided by the International Trade Association, Export Mailing List Services, etc.

Objectives	Teaching Suggestions
5. IDENTIFY OBSTACLES TO INTERNATIONAL TRADE	
What are some obstacles to international trade?	Students should be asked to look for articles in periodicals (e.g., the market section of the Wall Street Journal, U.S.A. Today, New York Times, etc.) or magazines (e.g., Business Week, Newsweek, Time, etc.) which present obstacles to international trade encountered by entrepreneurs.
Why should we know about language and culture?	Invite a speaker who has experienced language and cultural barrier problems when doing business overseas. Another suggestion is to use Axtell's book *Do's and Taboos Around the World* as a reference.
6. EVALUATE YOUR POTENTIAL FOR ENTERING INTERNATIONAL TRADE	
How do you develop sales proposals and contracts?	Ask a local business owner involved in international trade to speak to the class.
What are some important contract terms?	The instructor should develop a method to introduce the multitude of new terms in this section. You may want to suggest that students reference newly encountered terms on cards.
What are other considerations?	Refer to the above suggestion.
How should you decide whether to enter international trade?	There are many other potential discussion items. As an additional activity, the class could do library research to determine factors to consider about exploring global markets.

MODEL ASSESSMENT RESPONSES

1. Some advantages of international trade are: (1) increase overall sales volume, (2) use excess production capacity, (3) provide new markets for products with declining domestic sales, (4) keep up with domestic competition which does business abroad, (5) improve return on investment, and (6) create new jobs.

2. There are six categories of intermediaries operating in the U.S.: (1) GTCs (General Trading Companies), (2) ETCs (Export Trading Companies), (3) I/EMCs (Import/Export Management Companies), (4) Webb-Pomerene Associations, (5) MNCs (Multi National Corporations), and (6) Piggybacking.

3. The International Trade Administration (ITA) created by the U.S. Department of Commerce provides information on export opportunities. This information help businesses to understand foreign market conditions. The ITA is composed of four units: (1) the U.S. and Foreign Commercial Service, (2) the Trade Development, (3) the International Economic Policy, and (4) the Trade Administration.

   The U.S. and Foreign Commercial Service District Offices provide information and professional counseling to the business community.

   Country Desk Officers provide information on trade in different countries. Desk officers keep up-to-date on commercial and economic conditions in the country they are assigned to work in and try to remove obstacles to American business trade.

4. There are numerous ways to research international markets. One of them is to contact trade associations for your product or service and inquire as to information pertaining to foreign markets. Another method is to contact local and state Chambers of Commerce to gather information about foreign purchasers. Finally, local, state, and government agencies assist business with international commerce activities through their numerous ongoing programs.

5. Some of the obstacles entrepreneurs might encounter when doing business abroad are language and culture barriers, limited infrastructure, legal issues, time and climate differences, product adaptations and instable political environment.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
Center on Education and Training for Employment, 1900 Kenny Road, Columbus, Ohio 43210-1090
(614) 292-4353, (800) 848-4815.

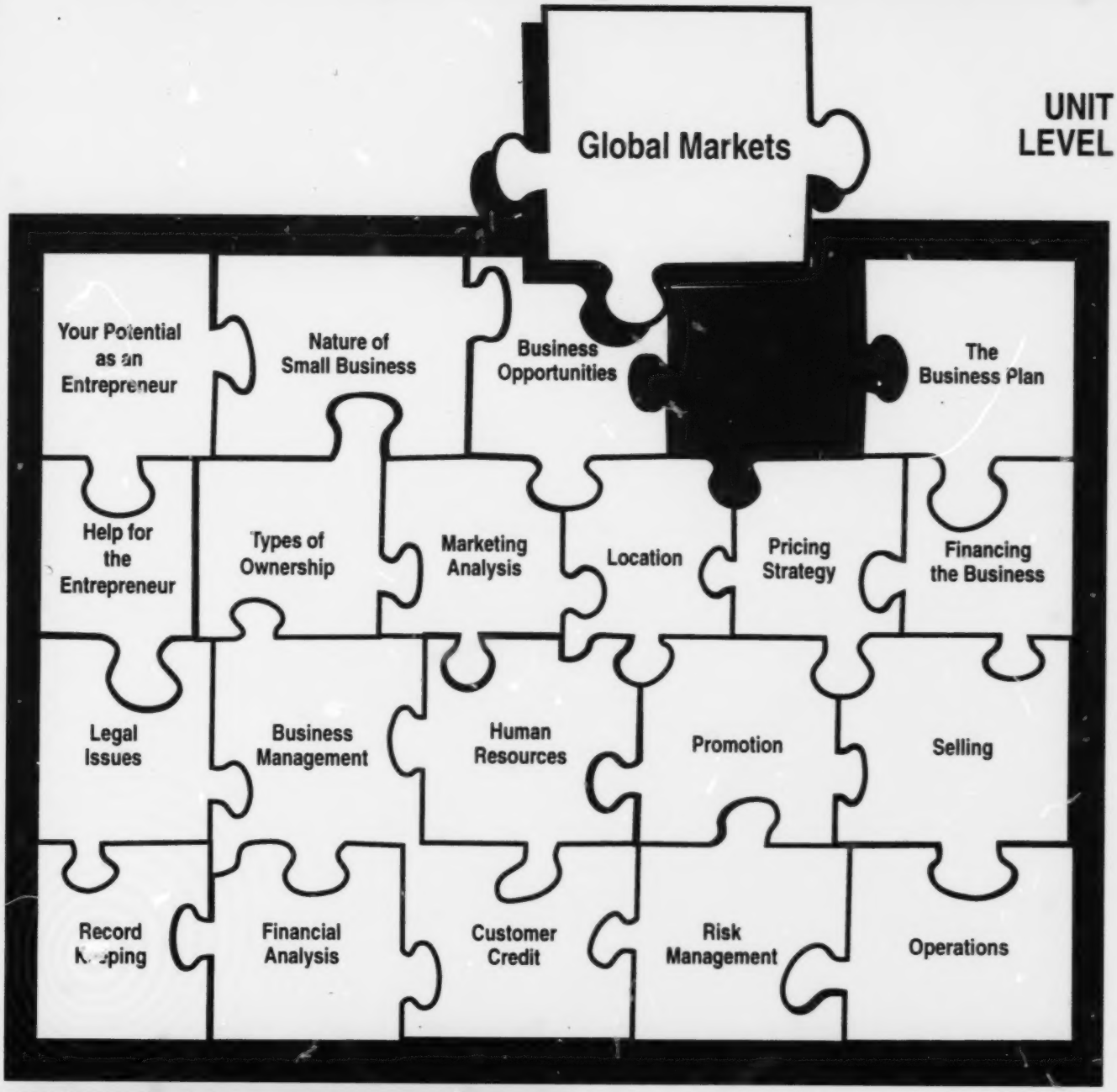
Support for **PACE, Third Edition** provided in whole or in part by:

International Consortium for Entrepreneurship Education
and
International Enterprise Academy
Center on Education and Training for Employment
The Ohio State University

The Coleman Foundation

Center for Entrepreneurial Leadership Inc.
Ewing Marion Kauffman Foundation

UNIT 4
LEVEL 3



PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 303-04

GLOBAL MARKETS

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Level 1 and Level 2:

   Level 1

   - Define international trade.
   - Describe trade regions of the world.
   - Discuss the reasons for exporting and importing.
   - Identify the impact cultural differences have on business opportunities.

   Level 2

   - Identify the importance of international trade.
   - Describe the reasons for exporting.
   - Describe the reasons for importing.
   - Use international trade/economic terms correctly.
   - Discuss the socioeconomic differences between potential trading partners.
   - Identify international trade opportunities for your business idea.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

   Antitrust
   Arbitration
   Direct exporting
   End user
   Export trading company
   Free on board (FOB) factory
   Free on board (FOB) named destination
   Free along side (FAS) named destination
   General trading company
   Indirect exporting
   Irrevocable letter of credit
   Intermediaries
   International trade fair
   Joint venture
   Licensing
   Mail campaign
   Margin
   Marketing subsidiary
   Multinational corporation
   On-line data base
   Piggybacking
   Standby letters of credit
   Trade mission

Copyright © 1994, Center on Education and Training for Employment, The Ohio State University. All rights reserved.

GLOBAL MARKETS

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit, you will be able to—

- discuss the impact of international trade on small business,
- research international trade options,
- identify technical assistance for international trade,
- describe methods of researching specific international markets,
- identify obstacles to international trade, and
- evaluate your potential for entering international trade.

WHAT IS THIS UNIT ABOUT?

The purpose of this unit is to familiarize readers with the role that small businesses can play in the global economy. Specifically, we will introduce the techniques that can be used to investigate marketing opportunities and solve specific problems as they arise. This is not a comprehensive guide to entering the global markets—there is no such thing—but it will introduce the more critical areas of international marketing that need to be understood and will point you in the direction that will provide more industry specific trade information.

Recent advances in communication and transportation technology, combined with major political restructuring, have highlighted the new relationships that are forming between all members of the global community. Countries that were enemies for centuries are now forming strategic and economic alliances. The power of a nation is today measured by the Gross Domestic Product (GDP) per head rather than the gross number of weapons per head.

True, there is still political instability in many parts of the world, and it will be a long time before the world is truly at peace. But the threat of global conflict is diminishing rapidly, and the creation of the global economy is a principal reason. Traditionally, countries have gone to war to achieve political or economic objectives. Today, countries can trade their way into power, and economic objectives can be met on the battlefields of the global marketplace.

4

An investigation of the countries that have been most economically successful in recent decades illustrates the power of globalization. Japan and Germany were both economically and structurally devastated after the second world war. Both of these countries suffered severe infrastructural damage, and essentially rebuilt their major industries from scratch once peace was declared.

How could it be that these countries could rebound so comprehensively, now having the most powerful economies of the modern world? Abundant natural resources is definitely not the answer. Neither Germany nor Japan have natural resources close to the scale of some much lesser nations. The answer lies in the forward thinking of their leadership and the mentality of the worker. These countries, although very different in almost every way, built industries that could produce way in excess of their domestic requirements and export the rest. Because they were able to produce high-quality items at good prices, their goods proved popular overseas, and both countries thrived as a result.

Because the U.S. economy was so powerful, many businesses believed that they could survive and prosper if they looked no further than their own backyard. For many years that was true. However, the rest of the world has caught up, and the domestic-oriented thinking of U.S. business and political leaders, has meant that the United States will probably never enjoy the prosperity and economic freedom that it once did. We are amidst the era of globalization, and the small business person can benefit from the trend.

WHY SHOULD SMALL BUSINESS CONSIDER INTERNATIONAL TRADE?

Just as countries can achieve their economic objectives through global trade, so too can individual companies derive enormous benefits from looking overseas for marketing opportunities. Going global can produce many benefits for your company. You can increase sales, improve productivity and profitability, manage excess capacity, alter the product life cycle, form relationships with international business people, and help to improve the quality of life of both your customers and your community.

Most firms in the United States do not participate in global market activity. Almost 90 percent of American firms sell in the United States only. The top 50 exporters in this country export over 30 percent of the goods that leave our shores. Given that some countries have been exporting since the dawn of civilization, why is it that one of the most prosperous countries would avoid a concerted effort to tap into the global markets? The reason is that many U.S. companies never needed to. The U.S. economy was so powerful domestically that most companies prospered at home and had no need to look overseas. A lack of international competition, combined with the vastness of the domestic population and a very high disposable income, ensured that there was plenty of business for many American companies.

Today, however, the situation is very different. Because of the relatively open U.S. economy, many companies that have never stepped foot outside of the United States are

being drafted into international competition. There are very few large industries that do not have foreign competitors supplying products within them. Therefore, regardless of whether or not you choose to export or source globally, you are being affected by global competition. The one response is to look overseas for opportunities and help the United States balance the trade books.

Realizing the damage that the trade imbalance and ballooning budget deficit are doing to the American economy, the government is placing a much higher priority on international competitiveness and the balance of trade than in years past. There are many government sponsored programs that assist in both the commencement and sustenance of exporting and importing programs for small businesses. Financial aid and insurance are provided, and government departments will even help you build strong working relationships with potential buyers and suppliers through consulates and the Small Business Administration. This makes international trade more accessible to the small business owner.

Beyond improving the domestic trade balance, there are many other reasons small businesses should consider international trade. Some of these include the following:

- Increase overall sales volume by tapping unmet international demand.
- Enlarge production volume to spread out fixed costs, which allows higher margins or lower prices.
- Use the production capacity that exceeds your reserve capacity.
- Compensate for seasonal fluctuations in domestic sales.
- Find new markets for products with declining or stagnating U.S. sales growth due to domestic or foreign competition.
- Exploit existing competitive advantages in untapped markets.
- Learn about advanced technical methods used abroad by way of a joint venture or partnership.
- Acquire knowledge about international competition that may improve competitiveness in your domestic markets.

WHAT ARE SOME OF THE OPTIONS FOR SMALL BUSINESSES?

International marketing can be done through **importing** or **exporting** products or services. This may include both end-use products, items to be used in manufacturing a product, or exporting of services.

Simply defined, **exporting** is the transportation of goods manufactured in your home country to another country and sold there. For example, wheat that is grown in the United States and sold in Poland is considered *to be exported* to Poland.

Importing is essentially the exact opposite. Importing is the function of transporting goods manufactured in another country for resale inside the United States. For

example, BMW cars manufactured in Germany and sold in the United States are considered *imported* cars.

Another form of importing is called *global sourcing*. Sourcing is the procurement of goods and raw materials used in the manufacturing of goods for resale. Therefore, international sourcing is the purchase of raw materials and components for manufacturing from sources outside of the United States.

Many American companies currently practice global sourcing for primarily economic reasons. An example can be seen even in the Auto industry, where modern American cars are made up of electrical components made in Japan, suspension systems made in Germany, and seats made in Mexico. Companies source globally because for many components, quality is higher and prices are lower overseas, which means that if they don't do it, someone else do it will cheaper. It is this type of economic thinking that will be driving much of the move towards global sourcing that will be seen in the coming decades.

Over the years the fairly simple concepts discussed above have evolved into a science in their own right, with many variations and combinations possible to the globally-minded business person. Following is a simple overview of some of the more advanced options.

WHAT IS A JOINT VENTURE?

Due to the great uncertainty involved in marketing a product overseas, many companies seek assistance from a company that has operations in the market they wish to enter. One form of partnership that might be considered is a *joint venture*. A joint venture is a financial partnership where the two companies share the costs of market penetration in exchange for a share of the profits. The beauty of this method is that both entities have a genuine desire for the product to succeed in the new market, which provides ample motivation and dedication of resources.

Many companies use such alliances to great strategic advantage. An excellent example of successful joint venture is between the Corning Company and a variety of international companies. Corning has joint venture operations with a variety of major technological and manufacturing driven partners on almost every continent. The alliances that have been formed include making tumblers, fiber optic cables, car headlamps, and homewares. In all cases the relationship is formed under the assumption that the rewards for working together are much greater than for working separately.

The advantages of a strategic alliance revolve around the sharing of expertise. The visiting company may have a technological process that can provide a competitive edge in a foreign market. The domestic partner may provide the manufacturing base and marketing knowledge that will allow the new products to be marketed in the foreign market. Clearly, the biggest danger involved in a strategic alliance is the selection of an inappropriate partner. The partnership selection process is crucial for the success of the alliance and can take many years to work properly.

WHAT IS LICENSING?

Licensing is another alternative that can be considered when contemplating going global. Licensing is simply the granting of permission to a foreign company to manufacture or sell your product overseas. Licensing offers very fast entry into a foreign market, but does not allow the original producer to maintain nearly as much control over the distribution, pricing, and positioning of the product as would be allowed with a partnership or strategic alliance.

When contemplating a licensing arrangement, the most crucial decision is the selection of the licensee. It is an unfortunate reality that the type of entrepreneur required to penetrate a new market is probably inappropriate to run a stable business. Therefore, the long-term goals of the business must be considered at all times, and senior management must closely observe the development of the business and maintain some control over the ownership of the license to permit personnel changes when needed.

WHAT IS FRANCHISING?

Franchising is another way of marketing internationally. A franchise involves the sale of a service or product concept to an international business person with that individual running the business in the same basic way it is run at home. Many examples of franchises exist today, the most notable of which include McDonald's, Wendy's, Burger King, and Kentucky Fried Chicken.

Franchising offers the international businessperson several distinct advantages over direct exporting or licensing. The most important of these is that your new venture is being marketed by a member of the home country. If you select the right franchisee, then that person can tailor the local marketing effort and modify the service to be more in line with the requirements of the marketplace. This method replaces extensive research or guesswork regarding the needs of the market. In addition to expertise, the new franchisee brings commitment, because his/her livelihood depends on his/her ability to run the new business.

The most important disadvantage of franchising is that you lose a certain element of control of your business. However, delegating that control is important to allow minor home country modifications that will enhance the service provided. Another obstacle is that the services provided must be very similar, if not identical, across the various markets in which the franchise operates. Theoretically, the above-mentioned fast-food chains are successful overseas because their production lines, quality service, and restaurant fittings are virtually identical in each of their franchise locations.

HOW CAN DIRECT MAIL BE USED?

Many have been very successful in **direct mail**, or **direct response**, campaigns both domestically and internationally. Direct mail can adopt one of two methods. The first method is designed to make a sale, whereas the second is to present an appeal for a

response (an advertisement) to create interest from a qualified buyer. Direct mail is becoming more popular as people get used to the idea of shopping from home, and are less skeptical of the quality and reliability of direct mail companies. In addition, the price and quality of service provided by mail and shipping companies has improved, ensuring that the quality of service is maintained by the direct mail company.

Another big advantage of direct mail is that there is no need to establish a permanent presence in the countries with whom you are doing business. You could conduct all of your business from a shed in the far-away Mojave Desert, as long as you have an international 800 number and access to a post office. The hardest part of direct mail is finding out who to mail to. Getting access to reliable mailing lists is challenging, even in this country. It's not that these lists are not available, because there are plenty of them around; it's just that you can often not be certain that the list contains people who will be interested in your product. This is especially important when you consider that your markets will probably be segmented by what they do and the way they behave rather than how old they are, or where they live.

HOW CAN INTERMEDIARIES BE USED?

Because entrepreneurs are so independent, much trade is lost that could be made through *intermediaries*. These intermediaries are middlemen that have professional knowledge about the paperwork, transportation of products, and the financing of exports, as well as the best marketing programs. This firm is like a broker. It will broker goods manufactured in one country to companies and governments in another. There are six general categories of intermediaries operating in the United States.

- *General Trading Companies (GTCs).* These companies import and export a broad range of goods. There are both foreign and American GTCs operating in the United States.

- *Export Trading Companies (ETCs).* These new companies were started under the Export Trading Company Act of 1982. They can be bank or nonbank owned.

- *Import/Export Management Companies (I/EMCs).* These are traditional American intermediaries. They are small in size and specialize in (a) exporting or importing, (b) product/industry, and (c) market areas.

- *Webb-Pomerene Associations.* These were formed under a 1918 law that limits their activities to export only, but allows companies to collaborate in terms of pricing, distribution, quota fixing, and assisting in international market penetration. Given the American antitrust regulations, these activities would be considered anticompetitive if they occurred within the U.S. borders.

- *Multi National Corporations (MNCs).* MNC's are large corporations that take on an additional business unit that handles international work exclusively.

- *Piggybacking*. This method of exporting links the products of your small business to complementary products of larger firms, who charge a fee for the use of their excess capacity.

WHAT TECHNICAL ASSISTANCE IS AVAILABLE FOR SMALL BUSINESSES INTERESTED IN INTERNATIONAL TRADE?

The federal government has established a variety of programs to help small businesses enter or expand into international markets. The United States Department of Commerce has created the International Trade Administration (ITA). This agency helps exporters through four units.

- The **U.S. and Foreign Commercial Service (U.S. & FCS)** operates district offices in 665 U.S. cities and 125 overseas posts.
- **Trade Development Office** has industry experts.
- **International Economic Policy Office** has experts for each country and region.
- **Trade Administration** office administers export controls and licenses for reasons of national security, foreign policy and short supply.

The ITA gets information about specific export opportunities from, among other sources, the U.S. Foreign Commercial Service posts abroad. This information is screened and processed to ensure its usefulness in helping the U.S. business community to understand foreign market conditions. To supplement this published information, you can get personal counseling at the Department of Commerce's Washington office. However, Commerce Department ITA District offices provide the most convenient means to use the Agency's foreign trade services, assistance, and information. These offices will also tell you about charges for the program that interest you.

U.S. and Foreign Commercial Service (U.S. & FCS) District Offices—There are 48 district offices and 24 branch offices located in industrial and commercial centers throughout the United States and Puerto Rico. The offices provide information and counseling to the business community. A key element in the aid offered by the District Office is the professional counseling provided by trade specialists to interested firms.

Assistance includes trade and investment opportunities abroad, financing aid to exporters, U.S. Export-Import Bank, tax advantages of exporting, international trade exhibitions, economic statistics of foreign countries, market research, assistance in promoting U.S. products overseas, computerized trade opportunities, trade missions, export seminars, and conferences and participation in major international trade fairs.

U.S. & FCS Overseas Posts—Much of the information about trends and actual trade leads in foreign countries is gathered on site by the commercial officers of the U.S. & FCS. One of its functions is to seek out trade and investment opportunities continually that can benefit U.S. firms. These

offices provide a range of services including background information on foreign companies, agency-finding services, market research, business counseling, and assistance in making appointments with key buyers and government officials.

Country Desk Officers—This is another excellent source of information on trade potential in specific countries. These officers are stationed in Washington, D.C. Every country in the world has a country desk officer assigned to it. Desk officers keep up to date on the economic and commercial conditions in their countries and seek to remove obstacles to U.S. commercial activities.

Minority Business Development Agency (MBDA)—Minority-owned businesses can receive special assistance from the MBDA. Nine consultant organizations have been funded throughout the United States and Puerto Rico to help individual minority-owned companies develop exporting expertise. This expertise includes marketing plans, identifying potential markets and trade leads, and to provide the technical assistance necessary to complete international transactions. Also included in this assistance is documentation, short-term financing, and shipping organization for a specific area. MBDA is a division of the U.S. Department of Commerce.

The Small Business Administration (SBA)—One of the most beneficial of the services for international trade. Support provided by the SBA includes export counseling, which is offered through its field offices. The Small Business Institute and the Small Business Development Centers also offer counseling and technical assistance to exporters. The SBA's Call Contact Program uses professional management and technical consultants and is utilized where firms require highly sophisticated marketing information and production technology to identify and service overseas markets. Financial and legal assistance is also available through the Small Business Administration.

Due to the complex nature of certain areas of international trade, you should not hesitate to develop reliable and competent sources of expert advice in pursuing the global marketplace.

HOW CAN A SMALL BUSINESS RESEARCH SPECIFIC INTERNATIONAL MARKETS?

Inadequate preparation has been cited as the major cause of business failures when approaching international markets. Every attempt at globalization must be accompanied by thorough research and a good understanding of the success factors and potential pitfalls that may confront you in this endeavor.

Companies conduct research in order to gain a clearer understanding of their environment and the ways that consumers behave within that environment. Research is useful because, when done properly, it removes the biases that affect the way a business person thinks about his/her environment, leaving the facts isolated to be dealt with in an appropriate manner.

International research can be divided into two broad categories. These are primary and secondary research. **Primary research** is research that the small business person

conducts in order to answer specific questions that pertain to his or her product or service. It can take the form of questionnaires, personal interviews, focus groups, or telephone surveys.

The best thing about *primary* research is that the research objective is to answer *your* specific questions. Although you may not conduct the research personally, the research company you employ will consult with you to find out exactly what you need to know. The research will then be tailored to your needs exactly, providing answers to questions such as: Does demand exist for my product?, Is that demand currently being met?, How can I classify my customer base?, Who is my competition?, How much are people prepared to pay for my product, and What is the most appropriate distribution network for my product? The questions you can answer are limited only by your imagination and resources.

The disadvantage of primary research is that it is very expensive. You are paying for the hours that researchers spend on the telephone, or in the shopping malls asking questions. You are also paying for the expertise required to define the objective, design the survey vehicle, and interpret the results. The costs can be prohibitive, especially for the smaller business person.

Often a more appropriate and affordable form of research is **secondary research**. Secondary research is merely the investigation and interpretation of someone else's primary research in the context of your business situation. Secondary research can be used to resolve a variety of business related issues, specifically in the areas of general information, such as determining the appropriate country to approach with your product, and more general consumer-oriented problems.

WHAT TYPES OF DATA CAN BE FOUND FOR EVALUATING A FOREIGN MARKET?

Before deciding on a location for international expansion, the business person must undergo a fairly rigorous study of the various candidate countries or regions. This is called country screening, and it could be the difference between a long-term, viable expansion, and a short term-failure. Country screening can be divided into the following five dimensions:

1. DEMAND: Do people need and want your product?

2. COMPETITION: Is their demand currently being met, or is there an opportunity that is being missed?

3. ECONOMIC ENVIRONMENT: What is the condition of the host country's economy? What are its prospects?

4. LEGAL ENVIRONMENT: What are the legal restrictions that might affect your trade?

5. CULTURAL ENVIRONMENT: How do consumers behave? How will their behavior affect your product's prospects?

12

WHERE CAN SOURCES OF DATA BE FOUND?

Data for secondary research purposes are widely available on almost any country you would consider investigating. Of all sources, the U.S. government has the widest variety available. This data is available primarily through the Department of Commerce, Department of Agriculture, Department of State, Department of the Treasury, and U.S. embassies abroad. Data is available on global trends, specific countries, and specific industries.

Data might also be available from international associations, such as the United Nations, or the World Bank, which publish studies on global trends, specifically in the area of economic development. Trade Associations are able to supply good, detailed information regarding their home markets. Subscribing to a trade journal and collecting newsletters can also prove to be a valuable source for ideas, trends, and contacts.

Of increasing use to the small businessperson are on-line database services. These services offer instantaneous access to a wide variety of information sources, such as encyclopedias, worldwide sales screening, detailed financial reports on publicly traded businesses, travel planning, world weather, and product and industry searches. In addition, these services offer access to many trade journals and magazines published both in the United States and around the world. You would have access to the most up-to-date and comprehensive journal library in the world! However, these services do not come cheap. Although the information you will receive will be valuable, it will be up to you to determine if it is worth the price paid.

WHAT GENERAL SCREENING METHODS COULD BE USED?

The nature of the search you will undertake will vary, depending on the specific needs of your organization, and the product or service that you plan to sell. Because you will probably not have time to research all of the options available to you, general screening methods should be considered. This might be as simple as determining which countries allow the importing of your product from a customs or legal standpoint. From there, you might consider the purchasing power of the remaining countries in conjunction with an investigation of the level of economic, social, and infrastructural development. Then look at the extent of existing penetration of U.S., as well as other foreign firms into the particular country. Every investigation will be different, so you must give your approach careful consideration.

In order to make the most effective use of your time, it will be necessary to think seriously about the types of screening criteria you will employ. If you are uncertain as to the best approach for your industry, this may be an appropriate time to enlist the help of some of the technical assistance sources listed earlier in this unit. You might find that one of the best places to get started is your local library. The business resource librarian is somebody that you should get to know very well. He/she can be a very useful guide to the mountain of information that you have publicly at your disposal. You will be quite impressed as to what you can

find with a little ingenuity in your local library.

Following is a list of sources that may prove useful in researching your international expansion:

- Contact the trade association for the product or service you sell and inquire as to information pertaining to foreign markets.

- Contact your local and state Chambers of Commerce to gather information regarding foreign buyers active in your area. Also, indicate your interest in participating in local trade fairs and expositions that are conducted for foreign, commercial and government buying activities.

- Contact local export/import companies and inquire about persons who are knowledgeable in your product or service and are acting as commissioned sales representatives or independent distributors in foreign countries.

- Communicate with the consular or business section representing foreign governments in their Washington, D.C., embassies and request to have future solicitations forwarded to your firm.

- Local, state and federal government agencies have ongoing programs to assist in informing the small business entrepreneur concerning international commercial activities.

Another way to locate import items is to take a trip abroad and make your own individual contacts with merchants. Collect business cards and samples of items, return to the states and catalogue the items with pictures of samples and complete mailing address for contact.

The individual interested in exporting can gain from such trips by leaving a business card and studying the needs or desires of the particular country he or she is touring. If written correspondence is workable, then importers and exporters can by-pass the intermediary and develop a good trading relationship directly. This option may not be optimal for either party unless both have extensive experience in international trade negotiations and practices.

Traveling to a prospective country is an expensive way of locating export/import items, but the travel may alert you to unique items and unique needs both for import and export.

However it is done, the business must develop an overseas partner whether it is through a trading company or an individual contact with a company in the country.

WHERE DO YOU START?

If you want to know how your industry's products are selling around the world—which markets are growing the fastest, which ones are changing, or which ones want to buy more of your products—the International Trade Association (ITA) has the answers for most active U.S. industries. Information is in both statistical and narrative form. In addition, they can provide information on the following:

- Tariff and nontariff trade barriers, import regulations, policies, and product standards

- Domestic and foreign competition, individual competitors and competitive factors

- Distribution practices

- End users

- Which media effectively promote products throughout the market

Custom-tailored research will provide you with key marketing and foreign representation information about your specific product in select countries. ITA conducts on-the-spot interviews to determine nine key marketing facts about your product, including sales potential in the market, comparable products, distribution channels, going price, competitive factors, and qualified purchasers. The ITA has several aids designed to help you find overseas buyers.

- **Export Mailing List Service (EMLS):** The customer supplies the criteria for custom identification of foreign manufacturers, agents, distributors, retailers, importers and other contacts. The data retrieved includes company name, address, cable and telephone, contact name, product or service interests. Lists are offered as mailing labels, printouts, or computer tapes.

- **Trade Opportunities Program (TOP):** TOP can provide you with current sales leads from overseas firms seeking to buy or represent your product or service. These leads are available electronically or in printed form.

- **World Traders Data Report (WTDR):** ITA will prepare custom evaluations, called WTDRs, on your potential trading partners. The overseas commercial staff will check the firm's standing in the local business community, credit worthiness, and overall reliability and suitability as a trade contact.

The Department of Commerce produces publications that can keep you informed of international business developments and help you investigate markets.

- **Business America** magazine reports every two weeks on international markets, economic conditions, and specific sales opportunities.

- **Commerce Business Daily** summarizes U.S. government procurement invitations, subcontracting leads, contract awards, sales of surplus property, and foreign business opportunities.

- **Overseas Business Report** examines the marketing factors, trade regulations, basic economic data, selling practices, and market profiles of individual countries.

- **Foreign Economic Trends and Their Implications for the United States** reports on individual countries. It gives current business conditions, current and near-term prospects, and the latest data on growth and buying patterns.

- **Market Share Reports** contain the latest five year spread of statistical data on imports of over 1,000 commodities by 88 countries and show the U.S. share for some 880 commodities in major overseas markets.

Another service provided by ITA as part of the export development program focuses on export generation activities within the United States. The service brings listed U.S. firms interested in exporting and prospective foreign buyers together. The primary purpose is to provide assistance to individuals and groups of foreign businesspeople who visit the U.S. looking for export opportunities. Services include identifying U.S. suppliers, services, and technologies; setting up itineraries, business appointments, site tours, seminars, and other arrangements; and providing the visitors with the names of U.S. firms exhibiting at domestic trade shows that are seeking business partners abroad. Other services include:

- **Catalog/Video Shows.** You can gain market visibility for your product or service overseas without leaving your home office by participating in a catalog or video-catalog show. Just give ITA your product literature or promotional video, and they will display it for select foreign audiences in several countries.

- **Commercial News USA.** This monthly magazine promotes products and services to more than 85,000 overseas agents, distributors, government officials and end-users. Search for your best markets worldwide or focus on a particular region or regions where you are most interested in doing business simply by placing a description and picture of your product in this magazine.

- **Foreign Buyer Program.** Without the expense of traveling overseas, you can meet qualified foreign purchasers for your goods or services at U.S. trade shows. The ITA promotes select shows to attract foreign buyers and counsel participating U.S. firms, bringing together buyers and sellers.

- **International Trade Fairs.** Trade fairs give you a chance to meet customers face-to-face and to assess the competition. ITA creates a U.S. presence at certain fairs, making it easier for firms to exhibit and gain international recognition. Also, ITA selects some fairs for special endorsement or certification. As a result, exhibitors receive special services to enhance market promotion efforts.

- **Export Development Offices (EDOs).** These special facilities organize trade events and business services in cities such as London, Mexico City, Tokyo, and Seoul to help U.S. firms promote their products or services, find agents or distributors, and make sales. Other offices of the U.S. and Foreign Commercial Service at U.S. posts overseas also help firms organize similar kinds of outreach for export promotion.

- **Trade Missions.** Three kinds of trade missions have been developed to help U.S. exporters penetrate overseas markets. U.S. specialized trade missions are organized by the U.S. Department of Commerce to focus on a particular

product line. The state/industry-organized government-approved trade mission (S/IOGAs) may be organized by state development agencies or trade associations, among others, with Commerce sponsorship. Seminar missions facilitate the sale of sophisticated products and technology and may be scheduled independently, or as components of other trade missions.

Business travel overseas by U.S. firms should be arranged by writing, at least 2 weeks before leaving the United States, to U.S. Embassies or Consulates in countries to which visits are planned. Address communication to the Commercial Section of the country's representation in Washington, D.C.

WHAT IS THE EXPORT HOTLINE?

Export Hotline is a corporate sponsored, nationwide fax retrieval system for a U.S. business interested in international trade information. Its purpose is simple—to help the business find new markets for products and services and to build America's exporting base.

This service is designed to cut through the information barrier facing companies as they begin to explore new opportunities in international markets. The service provides customized, practical information from a centralized data base of more than 60 countries incorporating reports on over 50 industries.

The first step for the business is to activate an account with Export Hotline. Once established, the business can call the Export Hotline and indicate the types of information required. The information requested is then immediately faxed to the participating business. The service is free and supported by a number of corporate sponsors, including AT&T. The U.S. Department of Commerce works cooperatively with the Export Hotline. To talk directly with a trade counselor at the U.S. Department of Commerce the business can call 1-800-USA-TRADE. This counselor can give additional information about U.S. Government resources that are available. For initial direct access to Export Hotline, you can call 1-800-USA-XPORT.

WHAT ARE SOME OF THE OBSTACLES TO INTERNATIONAL TRADE?

There are many obstacles to international trade. Diversified cultures, languages, and exchange rate fluctuations might seem to be the main problems. But in addition to these, the business owner must consider limited modes of transportation and other distribution issues, legal issues, time differences, political environment, and the necessity of product adaptation.

WHAT SHOULD WE KNOW ABOUT LANGUAGES AND CULTURE?

Language is probably the key to understanding the culture of a country. The culture is a major consideration because it influences the way people make decisions about everything from abstract managerial concepts to

what they will eat for breakfast. Americans for the most part believe that different peoples of the world are homogeneous in their thoughts and goals, if not their ability to achieve them. However, this is not necessarily the case. The American business management culture is more short-term goal-oriented and rather action-oriented, whereas other countries' management cultures may be long-term goal-orientated and strive for long-term viability rather than a quick return.

Language is an obstacle that continues to baffle exporters and importers. Both body language and spoken language have different meanings in different cultures. The simplest gesture can be very cordial in one country and quite offensive in another. Similarly, spoken language may translate into a variety of different meanings depending on who is saying it and who is translating it. The expression "if you want to kill a message, translate it" holds true in a lot of cases, and may be a considerable hindrance to business transactions.

There are a variety of solutions available for this problem depending on your human and financial resources. The most logical is to employ someone with sufficient language and cultural skills to allow cooperative communication between yourself and your potential trading partners.

Another solution might be to find an appropriate contact in the country you would like to enter and build a close working relationship with that individual. That person can then become responsible for taking your products and marketing them in his or her home country.

As a last resort, you might attempt to go it alone, and learn the language and culture of your potential partners. It is advisable that you learn the language of the customer anyway, but to attempt to execute transactions that involve negotiations or detailed partnership relations without the help of someone who truly understands the culture is inviting failure.

Having described the pitfalls of international business, it should be pointed out that these pitfalls are to an extent unavoidable; and if international business were easy, everybody could do it successfully and there would be no opportunities. However, this is not the case. The business person who embraces these differences and commits 100 percent of effort and resources to dealing with them will have the greatest chance of overcoming them.

The following are some of the unique culture differences that you may encounter in your international business pursuits.

- Italians are big on hand shaking, but usually don't remember names.

- The French are very particular about their language. If a business owner has limited abilities in speaking French, he or she should stick to English.

- In Mexico, hands should be kept above the table while eating.

- In France, a dinner guest always sends flowers before visiting. However, one should not send chrysanthemums. These are used for funerals.

- In Finland, business guests may be asked to join their hosts in the sauna! This is a sign of a good working relationship.

- In Indonesia, a business card must be presented before any business can take place.

There are many books of study on the gestures and cultures of other countries. The smart business owner will locate these books and become familiar with the customs of the country he or she hopes to work with. Two books of interest are *Gestures* by Desmond Morris and *Do's and Taboos Around the World* by Roger E. Axtell. Axtell advises people reading his book that in many parts of the world, there is much more to business than just business. Socializing, etiquette, grace, patience, and protocol are integral parts of "just doing business."

HOW DO YOU DEVELOP SALES PROPOSALS AND CONTRACTS?

To avoid possible communications problems, it is best to describe your product or service using direct and concise language. If possible, the use of technological or trade jargon should be limited, unless you have provided a glossary of terms with your proposal. Carefully review your proposal to assure that a potential buyer will have a clear and precise understanding of what it is that you are offering. There is risk involved in overselling your capabilities. The buyer's expectation of what the seller will provide is based on what has been described in the proposal, as well as the description of the goods in the contract. Therefore, to minimize the possibility of an unhappy foreign customer, concrete clarity in your sales documents is necessary.

A listing of what you, as the seller, will provide under any resulting contract as well as a list of the buyer's corresponding responsibilities is a good method to use to establish a clear understanding of the nature of what it is you are offering. As a form of security, it may be worthwhile to invest in "back-translation", which is merely the translation of your proposal from the foreign language back into English. This should be conducted by a second, unrelated translator, to prevent biases in translation. This "back-translated" document will give you an excellent idea of the message that is being communicated to your potential customer.

Generally in international sales, fixed price contracts are used. In a fixed price contract, the parties agree to the price of the goods or services to be rendered at the time of entering into the contract, regardless of what actual costs the seller may incur in performing the contract. Also, there are certain well-established designations for the shipping terms of contracts that are used extensively in foreign sales. Many times quotations to potential foreign buyers will be offered without a detailed set of terms and conditions of sale, but will merely indicate the offered price with one of the following identified terms, which describes certain fundamental provisions of the proposed agreement:

- **F.O.B. (Free on Board Factory).** These terms have been accepted in international commercial contract practice to mean that the seller's delivery obligation is to

tender delivery to the buyer by notifying the buyer, or his designated freight forwarder, that the goods are packaged, packed and ready for shipment from the seller's facility. This type of contract represents an approach that allows the seller to avoid the risks and costs involved in shipping and the uncertainty of fluctuating shipping charges.

- **F.O.B. Named Destination.** This term means that the seller must at his risk (insurance) and cost (transportation) deliver the goods to a prespecified named destination, such as an airport, shipyard or the buyer's facility. The seller is to bear the costs of all taxes and charges incurred until the F.O.B. destination point is reached.

- **F.A.S. (Free Alongside) Named Destination.** This provision means that the seller is to pay for the costs and assumes all risks in transporting the contracted items to a position alongside the vessel or plane the buyer has identified to transport the goods. Notice that in this shipping arrangement, the seller is only responsible to deliver the goods to a designated loading area and the buyer is responsible from that point.

It should be noted that F.O.B. and F.A.S. transactions that are to named U.S. destinations, where the foreign buyer then assumes responsibility for the goods, is the lowest risk approach for the small international business. Freight charges, insurance obligations, and foreign duty charges present potential pitfalls to achieving the goal of maximizing profits at minimal risk and should therefore be avoided if possible.

- **C.I.F. and C & F.** The term C.I.F. means that the quoted price includes the price of the goods and accompanying insurance as well as freight to the named destination. The C & F indicates that price includes the price of the goods and freight charges, without any costs for transit insurance coverage. The seller must not only absorb the costs of transportation in a C.I.F. contract, but must also purchase insurance in the name of the buyer for the goods while they are in transit. The risk of loss of the contracted goods passes to the buyer as soon as the goods are loaded on a vessel at the shipment point. It is important to consult and establish a relationship with a local agent of a reputable freight forwarder, exporting company or shipping line prior to issuing C.I.F. or C & F quotations.

WHAT ARE SOME IMPORTANT CONTRACT TERMS?

In pursuit of the goal of securing the return that results from entering into an international sales contract, certain important factors concerning payment should be considered. As an exporter, you will need to establish that the customer has the financial means to pay for your goods. Also, some orderly payment arrangement should be outlined so there are no questions as to the occurrences that must take place to entitle the seller to payment from the buyer. Following is a list of the tools that are available to the international trader to help minimize some of the risks inherent within the activity.

- **Irrevocable Letters of Credit (ILOC).** You should obligate the buyer to establish an ILOC, confirmed by a local United States bank of your choice. By use of the ILOC, you can avoid the very impractical and risk-filled alternative of relying upon the payment capability of the foreign buyer. You should consult with your local bank or attorney regarding ILOCs.

As an exporter, you might consider including in your proposed terms of sale that all payments made under the sales agreement will be in U.S. currency. This will negate the effects of exchange rate fluctuations that might substantially reduce your profits.

- **Standby Letters of Credit and Guarantees.** The practice of some foreign buyers, especially governments, is to readily provide for payment to United States sellers by way of ILOCs but to ask for some kind of guarantee of performance in return. The seller's return guarantee of performance can take the form of a *letter of credit*, *bank letter of guarantee*, or the withholding of a certain percentage of the contract price until the buyer is certain the delivered goods conform with the contract. If possible, the seller should make any draw or collection against his guarantee of performance dependent upon the determination by an independent third party such as a panel of independent arbitrators, that the seller has or has not adequately met all contract requirements.

- **Choice of Law.** There is no universal set of laws regulating international trade and commerce today. It is, therefore, very important for you to specify in your contract the governing law to be applied in construing the rights and obligations of the parties. You should select your own state's law as the controlling law to be applied to your agreement. You should draft the contract with an awareness of the Uniform Commercial Code prerequisites for an enforceable contract in your state.

- **Arbitration.** All contracts for foreign trade should include a provision calling for the settlement of all disputes under the Rules of Conciliation and Arbitration of the International Chamber of Commerce. You would be wise to include such a clause in your contracts.

- **Inspection and Acceptance.** It is best for the seller to limit, as much as is possible and reasonable under the circumstances, the buyer's rights of inspection and acceptance after goods have been shipped from the seller's facility. This approach recognizes the very practical consideration of the high and uncertain costs involved in conducting extensive inspection and acceptance test procedures at any location other than the seller's facility.

- **Taxes.** It is important to state clearly in your contract who will absorb the costs of all applicable taxes. Normally, the exporting seller is responsible for the payment of all taxes, customs, and duties levied in his country; and the buyer/importer is similarly obligated to pay all governmentally imposed charges related to the contract.

WHAT ARE OTHER CONSIDERATIONS?

You, as a seller of a commodity that is desired in the international marketplace, must satisfy the responsible U.S. government agencies that the item you wish to sell is licensable under the laws and regulations that establish the export license classification applicable to your product and the importing nation. You should also be aware that transmitting certain types of technical data abroad requires securing the approval of the federal government.

There are many federal laws and regulations that can directly apply to your export sale transaction. The Department of Commerce and the Internal Revenue Service stipulate regulations prohibiting the participation of U.S. companies in international trade boycotts. Close review of shipping documents and contract provisions required by certain middle eastern countries is required in order to satisfy the reporting and compliance requirements pertaining to U.S. government regulation of boycott practices.

Always attempt to secure a written acceptance of your offered terms of sale that does not modify or change any of the terms. Problems can readily develop if the foreign buyer indicates acceptance of your offer and then proceeds to condition his acceptance to the terms of sale. To attempt to avoid this conflict, you should state in your proposal that "this offer expressly limits acceptance to the exact terms of this offer." Thereafter, if the buyer attempts to accept your offer by signing the contract, which he has modified to incorporate his terms of sale, there is no final agreement as to the terms, under U.S. commercial law.

Due to the complex nature of certain areas of international trade, you should not hesitate to develop reliable and competent sources of expert advice on the subject.

Knowing the risks and potential involved in doing business in the international arena, and armed with a better understanding of how to minimize these risks through sound business practices, it is now possible for you to more carefully consider the global marketplace that exists for your company's goods and services.

HOW SHOULD YOU DECIDE WHETHER TO ENTER INTERNATIONAL TRADE?

There are many factors that you should consider when deciding whether or not to enter the global market place. Some of the considerations you must ask yourself include:

- Is my business stable enough in the United States to allow me to invest the time and resources required to commit to a global market initiative? Do I have the resources needed to sustain this initiative? Does my business contain the people and skills necessary to compete in the world market? Can I find the human resources that will accommodate my existing deficiencies? Do I fully understand the trade financing options that are available to me and their respective strengths and weaknesses? Is the local currency of my trading partners convertible and is it stable? If it is not, do I

understand the tools that can reduce this risk?

- Is my product or service needed in the country I have chosen? What are appropriate marketing strategies for entering this marketplace? Do I have the resources to determine consumer behavior and the unique characteristics of purchasing decisions made by potential customers of this market?

- Do I have good contacts in the country in which I hope to do business? Is the government in that country receptive to international trade? Do I know the channels that I must follow in my own country to export? Have I checked the legal issues, tariffs, and so forth?

- Have I evaluated the competition that exists in terms of marketing strategy, pricing, etc.? Can I afford to sell my product or service in the country?

- Are there distribution systems available? What are the extra cost factors to consider? Can I make a profit considering the additional costs of international sales? Have I taken into account tariffs, transportation, damage and so on?

- Are there other methods of international trade to consider? Should I consider a joint venture or possibly direct investment by manufacturing my product in the country I have chosen?

- What are the risks of international trade? How can I minimize these risks? Should I purchase insurance?

It is important to consider these questions as you make your decision to enter the global market place. If you do not feel comfortable with your responses, reconsider your timing and do more research. Although there are numerous profitable opportunities for U.S. small business people in the international marketplace, entering this arena unprepared could place serious strains on your company's cash flows and human capital. It is a decision that must be taken seriously, and it is an initiative that must be undertaken with a full and complete understanding of the risks involved and how to avoid them. You must demonstrate patience and be prepared to make a long-term commitment to developing lasting relationships with intermediaries and customers alike.

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

Go to the library or look in an issue of the *Commerce Business Daily* and find information about exporting to one specific country. Identify the language, the time zones, the regulations restricting trade (if any), agencies that can help with your project. Determine forms that will have to be used to follow the exported item process.

B.

Write letters to various agencies that can give you help in the export/import process. In your letter, request brochures and materials as well as information that will be helpful in your exporting and importing project.

C.

Create a notebook of forms used in international trade.

D.

Individually choose at least two other countries that you would like to know more about. Try and find information that will help you compare economies, language, and cultural practices to those of the United States. Work in groups of four to six and discuss your findings.

GROUP ACTIVITY

In teams of four to six brainstorm the ways each of your members' business ideas might be involved in international trade. Identify the countries of particular interest and the steps you would take to get involved in trading internationally. Team members should expand the ideas for all businesses discussed. Be creative.

24

CASE STUDY

Bill Brown's business makes direct cast plastic products. The products are actually made from molten plastic by a spinning process. His primary products have been plastic fiber used for reinforcing materials and molded plastic containers (e.g., plastic bowls, storage boxes, etc.).

The customers of this business are both manufacturers and end users. Home owners find the plastic containers can be used for a variety of uses. Manufacturers use the plastic fibers in the petroleum industry and other plastics industries. The products for the end user are standard and come in several sizes and shapes. The products for the manufacturers, however, are custom ordered.

The business started when Bill was given early retirement from a plastic plant in southern Ohio. He decided it was too early for retirement and determined that he would try his abilities in plastics and start a business. He felt his 15 years experience would be helpful to him in running the business. The business has been in operation for approximately two years. During the two years, the product offerings for the end user have changed to offer more varieties of sizes and shapes.

The business today has approximately $500,000 in sales with 15 employees who are involved in production of the plastic products. Three of the 15 are sales agents for the company. There are also representatives in several European countries, as well as Canada and Mexico.

There are two challenges for the business. One is having the needed capital to keep a positive cash flow and the other is educating the customer about our quality products and the service that we offer our customers, especially the international customers. Another problem not as big as the first two is that of the currency difference. It is important that we think through the exchange rates for the various countries before we quote definite prices.

There are several companies in the United States that offer plastic kitchen containers and storage containers, but there are only one or two that offer custom order molded plastic products for manufacturers. The process by which the custom products are made allows the company a competitive advantage over other companies.

International trade was considered because it was easy to advertise in U.S. based magazines and the company was also listed with the Export Hotline sponsored by AT&T as a producer of custom molded plastic and plastic containers. Bill had also made several contacts when he took a trip to Europe when he left his job at the plastic plant. The major clients are in France, South America and Canada. The company tried to work with India, but this has been difficult since there are a lot of bureaucratic steps that an importer has to go through to sell in the country.

Bill suggests that if someone is thinking about starting a business that they should just do it. He says that starting a business is always a risk, but the rewards are great if an individual does his/her homework and plans with several alternatives lined up.

DISCUSSION QUESTIONS

1. What are some of the problems Bill encountered in starting his business?
2. Do you think he should have gone into international trade?
3. Why do you think Bill started his business?
4. Who is Bill's market?
5. What questions would you have asked if you were the interviewer?
6. Discuss other plastic items that Bill might produce for other international markets.

26

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Name at least five reasons that a business should consider exporting.
2. List the six general categories of intermediaries operating in the United States.
3. Discuss some of the technical assistance available for international trade.
4. Discuss three ways a small business can research specific international markets.
5. Identify some of the obstacles to international trade.

REFERENCES

Axtell, R. *Do's and Taboos Around the World.* Elmsford, NY: Benjamin, 1985.

Export Hotline Fax Retrieval Service, AT&T, 1992.

Kotite, Erika. "The New Alliance." *Entrepreneur Magazine.* August 1991, pp. 87-91.

International Trade Administration. "A Basic Guide to Exporting." Washington, DC: U.S. Department of Commerce, 1986.

Morris, D. *Gestures Their Origins and Distribution.* New York, NY: Stein & Day, 1979.

Nasibett, J., and Aburdene, P. *Megatrends 2000.* New York, NY: William Morrow & Company, Inc., 1991.

Nelson, C. A. *Your Own Import-Export Business, Winning the Trade Game.* Chula Vista, CA: Global Business and Trade Communications, 1988.

Reynolds, K. *Import/Export Procedures.* Cincinnati, OH: South-Western Publishing, 1992.

The Small Business Foundation of America, Inc. *Expertise,* 2nd edition. Boston, MA: The Small Business Foundation of America, Inc., 1983.

U.S. Department of Commerce, Economics and Statistics Administration. *Statistical Abstract of the United States 1990, 1991, 1992.*

Weinstein, B. "Countdown to 1992." *Entrepreneur Magazine.* March 1991, pp. 69-75.

Wells, L. F., and Dulat, K. B. *Exporting from Start to Finance.* Blue Ridge Summit, PA: Liberty Press, 1989.

Wentworth, D., and Leonard, K. *International Trade (Secondary) Teaching Strategies.* New York, NY: Joint Council on Economic Education, 1988.

Wiggin, P. "Business Beyond Borders." *The International Story.* Halsey Publishing for Delta Air Lines, 1991.

Van Horn, M. *Pacific Rim Trade.* New York, NY: AMACOM, 1989.

PACE

	Unit 1.	Your Potential as An Entrepreneur
	Unit 2.	The Nature of the Small Business
	Unit 3.	Business Opportunities
⇨	Unit 4.	Global Markets
	Unit 5.	The Business Plan
	Unit 6.	Help for the Entrepreneur
	Unit 7.	Types of Ownership
	Unit 8.	Marketing Analysis
	Unit 9.	Location
	Unit 10.	Pricing Strategy
	Unit 11.	Financing the Business
	Unit 12.	Legal Issues
	Unit 13.	Business Management
	Unit 14.	Human Resources
	Unit 15.	Promotion
	Unit 16.	Selling
	Unit 17.	Record Keeping
	Unit 18.	Financial Analysis
	Unit 19.	Customer Credit
	Unit 20.	Risk Management
	Unit 21.	Operations
	Resource Guide	
	Instructor's Guide	

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business